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FM AMEMBASSY PARIS

TO SECSTATE WASHDC PRIORITY 2112

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 20132, AUGUST 23, 1974

1. SUMMARY. FORTY-EIGHT HOURS AFTER PRESIDENT GISCARD D'ESTAING'S TELEVISED SPEECH ON THE ECONOMY AUGUST 27, TWO SETS OF OFFICIAL FIGURES WERE RELEASED CONFIRMING INTRANSIGENCE OF FRANCE'S ECONOMIC PROBLEMS: UNEMPLOYMENT UP 13 PERCENT OVER ONE YEAR, RETAIL PRICES ADVANCING AT 17 PERCENT ANNUAL RATE. INDUSTRIAL PRODUCTION CONTINUES STEADY ADVANCE, HOWEVER, AND NEW FIGURES SHOW WAGES RISING FASTER THAN PRICES. WITH GRUDGING SUPPORT FROM RETAILERS, GOF LAUNCHED
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WITH MUCH FANFARE NEW CAMPAIGN TO "PUT BRAKES ON

PRICES" BUT MAJORITY OF FRENCH REMAIN SKEPTICAL
AND PRECAUTIONARY SAVING APPEARS TO BE ON THE RISE.
SHARP DIFFERENCES EMERGING BETWEEN BIG BUSINESS
(THE PATRONAT) AND SMALLER COMPANIES OVER "MALTHUSIAN"
CONSEQUENCES OF GOF CREDIT SQUEEZE. END SUMMARY.

2. PRICES JUMP 1.3 PERCENT -

NATIONAL STATISTICS INSTITUTE (INSEE) ANNOUNCED
AUGUST 29 THAT RETAIL PRICES JUMPED 1.3 PERCENT IN
JULY, COMPARED WITH 1.1 PERCENT INCREASE IN JUNE.
OVER FIRST SEVEN MONTHS OF THE YEAR PRICES THUS
ADVANCED AT SEASONALLY ADJUSTED ANNUAL RATE OF NEARLY
17 PERCENT.

RATHER PLAINTIVELY COMMENTING ON THE PRICE
FIGURES, FINANCE MINISTRY SAID ACCELERATION WAS NOT
UNEXPECTED; CONTRIBUTING FACTORS WERE ACROSS-THE-BOARD
PRICE INCREASE OF 5 CENTIMES PER LITER FOR ALL MOTOR
FUELS, AND LIFTING OF RENT FREEZE IN EARLY JULY,
WHICH ALONE ADDED 0.3 PERCENT TO THE INDEX.

WHILE SOME ENCOURAGEMENT IS BEING DRAWN FROM
SLOWER PACE OF FOOD PRICE INCREASES (DOWN TO 0.7 PERCENT,
AS AGAINST 0.9 PERCENT IN JUNE AND 1.3 PERCENT IN MAY),
PUBLIC SECTOR PRICE INCREASES ARE ALREADY IN THE PIPE-
LINE (E.G., ORDINARY MAIL RATES TO GO UP 60 TO 100
PERCENT IN MID-SEPTEMBER).

AMONG SECTORS, SHARPEST PRICE INCREASES WERE
FOR MANUFACTURED PRODUCTS, UP 1.6 PERCENT FROM JUNE
AND 63.4 PEG3,5 *49. - 63-4 -&9. PRICES FOR SERVICES
ROSE 1.4 PERCENT, FOR A TOTAL INCREASE OF 8.1 PERCENT
SINCE THE FIRST OF THE YEAR AND 11.6 PERCENT OVER
JULY 1973.

3. UNEMPLOYMENT UP IN JULY -

UNEMPLOYMENT ROSE IN JULY 5.77 PERCENT OVER
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JUNE AND 13.07 PERCENT OVER ONE YEAR, ACCORDING TO
SEASONALLY ADJUSTED LABOR MINISTRY STATISTICS. THE
NUMBER OF REGISTERED UNEMPLOYED REACHED 453,900 BY
THE BEGINNING OF AUGUST; IT IS EXPECTED TO INCREASE
EVEN FURTHER IN THE AUTUMN.

LABOR MINISTRY CLAIMS TRENDS IN LABOR MARKET
"REMAIN FAVORABLE ON THE WHOLE," ATTRIBUTING JULY

INCREASES TO ENTRANCE INTO THE MARKET OF YOUTHS
REACHING WORKING AGE AND TO DECLINE IN JOB OFFERS
CONNECTED WITH SUSPENSION OF IMMIGRATION.

4. PUTTING THE BRAKES ON PRICES -

FRENCHMEN RETURNING FROM AUGUST HOLIDAYS WERE
GREETED WITH "OPERATION BRAKE ON PRICES," OFFICIALLY
LAUNCHED SEPTEMBER 2 BY FINANCE MINISTER FOURCADE
IN THE HOPE OF CUTTING RETAIL PRICES FOR EVERYDAY
GOODS AND THEREBY DAMPENING INFLATIONARY PSYCHOLOGY.

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ABOUT 200,000 SHOPS, A THIRD OF THE COUNTRY'S RETAIL
OUTLETS, ARE TAKING PART.

THE THREE-MONTH PROGRAM IS DESIGNED TO BRING DOWN THE COST OF A NUMBER OF ARTICLES BY 5 PERCENT. THE STAGE JUST BEGUN COVERS 10 BASIC FOODSTUFFS, AS WELL AS ITEMS FOR CHILDREN RETURNING TO SCHOOL. THE SECOND STAGE, BEGINNING IN OCTOBER, WILL COVER HOUSEHOLD GOODS AND IN NOVEMBER THE DRIVE WILL BE EXTENDED TO VARIOUS ARTICLES OF CLOTHING.

THE PUBLIC, HOWEVER, CONTINUES TO MAINTAIN ITS GALIC SKEPTICISM ABOUT THE GOVERNMENT'S PROGRAMS. IN A POLL CONDUCTED SHORTLY AFTER GISCARD'S SPEECH BY PARIS DAILY "LE FIGARO," 51 PERCENT OF THOSE INTERVIEWED UNCLASSIFIED

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EXPRESSED DOUBT THAT GOVERNMENT'S ANTI-INFLATION PROGRAM WOULD SUCCEED, AND 72 PERCENT SAID THEY FEARED SERIOUS UNEMPLOYMENT IN FRANCE IN THE COMING MONTHS.

5. BUSINESS SPLIT OVER ANTI-INFLATION PLAN -

FRANCOIS CEYRAC, HEAD OF FRENCH PATRONAT (EQUIVALENT OF NAM), HAS GIVEN HIS SUPPORT TO GOVERNMENT ANTI-INFLATION PROGRAM DESPITE DIFFICULTIES WHICH HE SAID IT ENTAILED FOR INDIVIDUAL FIRMS. SMALLER FIRMS, HOWEVER, CLAIM THEY ARE BEING DRIVEN TO THE WALL.

IN A TELEVISED INTERVIEW SEPTEMBER 1, CEYRAC INSISTED THE GOVERNMENT SEE TO IT THAT "HEALTHY AND WELL-MANAGED FIRMS" NOT BE "MORTALLY WOUNDED" BY STRICTURES OF THE ANTI-INFLATION PROGRAM (I.E., CHANGED DEPRECIATION RULES, ADDITIONAL CORPORATE TAXES AND SQUEEZE ON CREDIT). IT THUS APPEARS PATRONAT ASSUMES DISAPPEARANCE OF FIRMS WHICH ARE POORLY MANAGED OR WHICH HAVE BEEN "LIVING OFF INFLATION" BY PASSING ON COSTS OF INEFFICIENCY THROUGH PRICE INCREASES.

WHAT PATRONAT ONLY IMPLIED, HOWEVER, THE GOVERNMENT STATED EXPLICITLY. IN A RADIO INTERVIEW THE SAME DAY MINISTER OF INDUSTRY AND RESEARCH DECLARED THAT FIRMS SUFFERING FROM STRUCTURAL AND MANAGEMENT PROBLEMS WOULD BE IN TROUBLE EVEN IN TIMES OF ABUNDANT CREDIT, ADDING THAT GOF "CANNOT ASSURE SURVIVAL OF AN ENTERPRISE WHICH IS NOT VIABLE."

MEANWHILE, FEARS OF WIDESPREAD BANKRUPTCIES AMONG SMALLER COMPANIES CONTINUE, SYMBOLIZED BY TROUBLES OF THE TITAN-CODER TRAILER COMPANY. FINANCE MINISTRY IS NONETHELESS PLEASED WITH ITS SCHEME TO

HELP COMPANIES WHICH HAVE SUFFERED FROM CREDIT SQUEEZE INTRODUCED IN JUNE. LOCAL COMMITTEES SET UP BY MINISTRY TO EXAMINE CASES OF "DYNAMIC AND WELL-MANAGED" FIRMS HAVING DIFFICULTIES ASSOCIATED WITH CREDIT RESTRICTIONS HAVE RECEIVED 1,011 APPLICATIONS TO DATE. OF THESE, ONLY 632 WERE FOUND ELIGIBLE BY THE UNCLASSIFIED

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COMMITTEES, WITH 273 OF THEM ALREADY RECEIVING ASSISTANCE.

ACCORDING TO FINANCE MINISTRY ANNOUNCEMENT PRELIMINARY RESULTS DEMONSTRATE "POSITIVE SOLUTIONS" FOR BUSINESS AS WELL AS LABOR. ASSOCIATION OF SMALLER COMPANIES (PETITES ET MOYENNES ENTERPRISES) DISAGREES VEHEMENTLY, ACCUSING GOVERNMENT OF "MALTHUSIAN" POLICIES AND POINTING TO 23 PERCENT INCREASE IN BANKRUPTCIES FOR THE FIRST HALF OF 1974.

6. FOURCADE REMAINS OPTIMISTIC ON ECONOMY -

FINANCE MINISTER FOURCADE HAS SAID IN RECENT MAGAZINE AND NEWSPAPER INTERVIEWS PRICES WILL NOT BE RISING MORE THAN 1 PERCENT MONTHLY AT YEAR'S END AND "EXTERNAL DEFICIT" WILL BE SLIGHTLY BELOW 2 BILLION FRANCS. HE CONTINUES TO ASSERT PREVIOUSLY STATED GOALS WILL BE MET (SEE PARIS 20649). FOURCADE ADMITTED HE WAS TROUBLED BY TWO FACTORS, HOWEVER: LOSS OF PURCHASING POWER BY FARM SECTOR IN FRANCE (AS IN THE OTHER EC COUNTRIES) AND DISORDER IN INTERNATIONAL CAPITAL MARKETS WHICH THREATENS STOCK MARKETS AND THE BANKING SYSTEM.

WITH RESPECT TO FISCAL OUTLOOK FOR 1975, FOURCADE FEELS THAT TAX PINCH WRITTEN INTO FINANCIAL-

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REHABILITATION PLAN, AND ESPECIALLY DECISION TO SET PUBLIC EXPENDITURES AT A RATE NOT EXCEEDING THAT OF GDP "EXPRESSED IN NORMATIVE VALUE TERMS" (PLUS 13.8 PERCENT) SHOULD ALLOW GOVERNMENT NOT TO TIGHTEN SCREWS WHILE TRYING TO CHECK RISE IN PRICES AND ACHIEVE ANNUAL RATE OF GROWTH OF 4.5 PERCENT WITHOUT UNEMPLOYMENT.

FOURCADE ALSO SAID HE WAS CONVINCED FIRMS "WILL ROUND THE CAPE OF SEPTEMBER" -- APPARENTLY MEANING THEY WILL FIND THEMSELVES IN CALMER ECONOMIC WATERS THIS AUTUMN. HE NOTED TOTAL AMOUNT OF CREDITS BANKS ARE AUTHORIZED TO GRANT ARE CALCULATED EACH MONTH IN RELATION TO SAME MONTH OF THE PREVIOUS YEAR. AS THE VOLUME OF CREDITS GRANTED LAST SEPTEMBER HAD BEEN PARTICULARLY HIGH, BANKS WOULD BE ABLE TO BE UNCLASSIFIED

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MORE GENEROUS IN THEIR CREDIT GRANTING IN SEPTEMBER THAN IN JUNE AND JULY. FOURCADE STRESSED THAT CREDITS TO THE ECONOMY AS A WHOLE WERE INCREASING AT AN ANNUAL RATE OF 21 PERCENT, AS AGAINST AN INCREASE OF ONLY 13 PERCENT FOR CREDITS SUBJECT TO GOVERNMENT RESTRICTIONS. THE DIFFERENCE IS MADE UP IN CREDITS, EXEMPT FROM RESTRICTION, FOR EXPORTS, HOUSING AND ENERGY-

CONSERVING MEASURES.

FOURCADE ALSO RULED OUT POSSIBILITY OF INDEXING SAVINGS OR OF FLOATING A GOVERNMENT LOAN.

7. INDUSTRIAL PRODUCTION SHOWS SMALL INCREASE -

INDUSTRIAL PRODUCTION INCREASED ONLY SLIGHTLY BETWEEN MAY AND JUNE, ACCORDING TO LATEST INSEE FIGURES. SEASONALLY ADJUSTED, THE OVERALL INDEX OF INDUSTRIAL PRODUCTION (1970100) ROSE TO 127 IN JUNE FROM 126 IN MAY AND 121 IN JUNE 1973, FOR AN ANNUAL INCREASE OF 5 PERCENT.

8. WAGES OUTPACE PRICES -

ACCORDING TO NEW INSEE SURVEY, HOURLY WAGES FOR WORKERS ROSE MORE THAN 6 PERCENT IN THE SECOND QUARTER OF 1974, FOLLOWING A 5 PERCENT RISE IN THE FIRST QUARTER. WAGES WERE THUS RISING FASTER THAN PRICES, AS COST OF LIVING INDEX ROSE 4 PERCENT OVER SAME PERIOD. IMPROVEMENT IN PURCHASING POWER REACHED 1.92 PERCENT BETWEEN MARCH AND JUNE, AS AGAINST 1.3 PERCENT IN SECOND QUARTER OF 1973. IN SIX MONTHS, INCREASE IN HOURLY WAGES AMOUNTED TO 11.4 PERCENT AND PURCHASING POWER WAS UP 2.76 PERCENT.

EFFECTIVE SEPTEMBER 9 THE MINIMUM HOURLY WAGE WILL BE RAISED FROM 6.40 TO 6.55 FRANCS, FOR AN INCREASE OF 25.9 PERCENT OVER ONE YEAR.

9. FRENCH SAVINGS INCREASING -

DESPITE INFLATION, THE FRENCH HAVE NOT LOST UNCLASSIFIED

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THEIR HABIT OF SAVING. OVER FIRST FOUR MONTHS OF 1974 DEPOSITS IN SAVINGS BANKS WERE 15 PERCENT GREATER THAN IN THE SAME PERIOD LAST, GROWING FROM 147.4 TO 169.7 BILLION FRANCS. SIMILAR INCREASES WERE SHOWN FOR SAVINGS-AND-LOAN (EPARGNE-LOGEMENT) ACCOUNTS AND SAVINGS BONDS.

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WHILE AN INCREASE IN SAVINGS IS A BOOST TO FRANCE'S ANTI-INFLATION FIGHT, IT IS ALSO POSSIBLE THAT FIGURES ABOVE REPRESENT PRECAUTIONARY SAVING, INDICATING GROWING MISTRUST IN PRESENT ECONOMIC SITUATION.

10. STOCKS DECLINE SHARPLY ON BOURSE -

IN ONE OF THE SHARPEST DECLINES IN THE HISTORY OF THE PARIS BOURSE, GENERAL INDEX OF FRENCH STOCKS PLUNGED 17.92 PERCENT BETWEEN MAY 19 (FIRST SESSION FOLLOWING GISCARD'S ELECTION AS PRESIDENT) AND AUGUST 27 (THE DAY GISCARD DELIVERED HIS SPEECH ON THE ECONOMY). THE IMMEDIATE CAUSE OF THE PLUNGE WAS
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ATTRIBUTED TO GOF ANTI-INFLATION TAX SCHEME, ALTHOUGH
IT IS IN PART AN ASPECT OF GENERAL DECLINE ON WORLD
EXCHANGES.

11. OTHER REPORTS SUBMITTED DURING THE PERIOD -

TELEGRAMS

PARIS 20527 VISIT OF SENATOR TOWER AUGUST 29, 1974

PARIS 20649 FRENCH ECONOMIC OUTLOOK
OVER NEXT YEAR OR SO AUGUST 30, 1974

PARIS 20652 ECONOMIC FORECASTING AUGUST 30, 1974

AIRGRAMS

PARIS A-473 FRENCH FOREIGN EXCHANGE
HOLDINGS AUGUST 30, 1974

PARIS A-482 FRENCH FOREIGN EXCHANGE
HOLDINGS SEPTEMBER 6, 1974

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